

**Anita Municipal Utilities
Independent Auditors' Report
Basic Financial Statements and
Supplementary and Other Information
Schedule of Findings**

June 30, 2012

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**Anita Municipal Utilities
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tim Miller	Chairman	Resigned Feb 2012
Lee Poepe	Trustee	July 2015
Terry Oathoudt	Trustee/Chairman (Feb 2012)	July 2017
Delmer Kopp	Trustee (Feb 2012)	July 2017
Merlin Scarf	Superintendent	Indefinite
Diane Harrison	Secretary/Treasurer	Indefinite



Diane McGrain, CPA
Jim Menard, CPA

June 13, 2013

Independent Auditors' Report

To the Board of Trustees
Anita Municipal Utilities
Anita, IA

We have audited the accompanying financial statements of the business type activities and each major fund of the Anita Municipal Utilities, a component unit of the City of Anita, as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Anita Municipal Utilities management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Anita Municipal Utilities are intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Anita that is attributable to the transactions of the Utilities.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the respective cash basis financial position of the business types activities and each major fund of Anita Municipal Utilities at June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued....

June 13, 2013
Independent Auditors' Report

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2013, on our consideration of the Anita Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Anita Municipal Utilities' basic financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Anita Municipal Utilities' basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 8 and 18 through 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Schraer & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Anita Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follows.

2012 FINANCIAL HIGHLIGHTS

- The Utilities' total receipts increased 3.2%, or approximately \$37,000, from fiscal 2011 to fiscal 2012.
- The Utilities' total disbursements increased approximately 27.9%, or approximately \$348,000, from fiscal 2011 to fiscal 2012. The increase is due to the early payoff of electric utility debt.
- The Utilities' total cash basis net assets decreased approximately 23.9%, or \$409,000 from June 30, 2011 to June 30, 2012.

USING THIS ANNUAL REPORT

The Anita Municipal Utilities has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the Anita Municipal Utilities' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the Anita Municipal Utilities' financial statements. The annual report consists of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Utilities' financial activities.

The Statement of Activities and Net Assets provides information about the activities of the Utilities as a whole and presents an overview of the Utilities finances.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents more detail on the Anita Municipal Utilities' operations by providing information about the major funds.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

Other Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Supplementary Information provides detailed information about the Utilities' indebtedness at June 30, 2012.

FINANCIAL ANALYSIS OF THE ANITA MUNICIPAL UTILITIES

Statement of Activities and Net Assets – Cash Basis

The purpose of the statement is to present the receipts received by the Anita Municipal Utilities and the disbursements paid by the Utilities. The statement also presents a fiscal snapshot of the Utilities' cash balance at year end. Over time, readers of the financial statement are able to determine the Anita Municipal Utilities' financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, metered electric sales, connect/disconnect fees, rent for space on the water tower and miscellaneous fees. Anita Municipal Utilities also collects sewer fees on behalf of the City of Anita. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2012 and June 30, 2011 are presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2012	2011
Receipts:		
Use of money and property	31,999	36,953
Charges for service	1,042,893	1,036,471
Sewer fees collected for City	113,734	78,140
Total receipts	1,188,626	1,151,564
Disbursements:		
Plant operation and maintenance	740,392	749,526
Distribution operation, maintenance and generator	206,105	207,161
Accounting and administration	140,092	135,458
Sewer fees remitted to City	102,714	77,673
Debt service	407,986	79,205
Total disbursements	1,597,289	1,249,023
Net change in cash basis net assets	(408,663)	(97,459)
Cash basis net assets beginning of year	1,710,695	1,808,154
Cash basis net assets end of year	1,302,032	1,710,695

INDIVIDUAL MAJOR FUND ANALYSIS

As the Anita Municipal Utilities completed the year, the total proprietary funds reported a combined fund balance of \$1,302,032; a decrease of \$408,663 from last year's total of \$1,710,695. The following are the changes in the fund balances from the prior year:

Water Fund (Proprietary Fund) – Increased \$74,346 over last year mainly due to rate increases.

Electric Fund (Proprietary Fund) – Decreased \$483,009 from last year due to early payoff of debt.

BUDGETARY HIGHLIGHTS

The Anita Municipal Utilities amended its budget in May 2012 by the City of Anita, which resulted in an increase in disbursements of \$408,000 and no change in receipts. The major changes were for debt service costs.

The disbursements anticipated in the amended budget compared to the actual disbursements were a positive variance of \$85,425.

DEBT ADMINISTRATION

At June 30, 2012 the Anita Municipal Utilities had no revenue note debt outstanding, compared to \$400,000 last year as shown below.

	Outstanding Debt at Year End (Expressed in Thousands)	
	Year Ended June 30,	
	2012	2011
Revenue notes	\$ -	\$ 400

ECONOMIC FACTORS

The Anita Municipal Utilities assesses its billing rates for electricity on a monthly basis. The billing rate has been broken down into four components: product cost, operation and maintenance, emergency fund and bond payments. Product cost and bond payments are automatically analyzed by the computerized billing system. Operation and maintenance and emergency fund are assessed by the Board of Trustees annually. Based on the results of the component analysis, the energy adjustment rate is recomputed by the billing system to meet current needs. Current economic conditions beyond the control of the Board of Trustees play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and well-head protection, as well as the purchase and production of electricity.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Anita Municipal Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Anita Municipal Utilities, 828 Main Street, PO Box 426, Anita, Iowa 50020.

Basic Financial Statements

Exhibit A

Anita Municipal Utilities
Statement of Activities and Net Assets – Cash Basis
Year Ended June 30, 2012

		Program Receipts	Net (Disbursements) /Receipts and Changes in Cash Basis Net Assets
	Disbursements	Charges for Service	Business type Activities
Functions/programs:			
Business type activities:			
Water	\$ 182,078	\$ 249,547	\$ 67,469
Electric	1,312,497	793,346	(519,151)
Total business type activities	<u>\$ 1,494,575</u>	<u>\$ 1,042,893</u>	<u>(451,682)</u>
General receipts (disbursements):			
Interest in investments			23,818
Contributions not restricted to a specific purpose			8,181
City sewer fees collected			113,734
City sewer fees remitted			(102,714)
Total general receipts			<u>43,019</u>
Change in cash basis net assets			(408,663)
Cash basis net assets beginning of year			<u>1,710,695</u>
Cash basis net assets end of year			<u>\$ 1,302,032</u>
Cash Basis Net Assets			
Unrestricted			<u>\$ 1,302,032</u>

See notes to financial statements

Anita Municipal Utilities
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances – Cash Basis
As of and For The Year Ended June 30, 2012

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 249,547	793,346	1,042,893
Total operating receipts	249,547	793,346	1,042,893
Operating disbursements:			
Business type activities:			
Plant operation and maintenance	40,415	699,977	740,392
Distribution operation and maintenance	78,925	127,180	206,105
Administration	62,738	77,354	140,092
Total operating disbursements	182,078	904,511	1,086,589
Excess (deficiency) of operating receipts over (under) operating disbursements	67,469	(111,165)	(43,696)
Non-operating receipts (disbursements):			
Rent	6,877	1,304	8,181
Interest on investments	-	23,818	23,818
Sewer fees collected for City	-	113,734	113,734
Sewer fees remitted to City	-	(102,714)	(102,714)
Debt service	-	(407,986)	(407,986)
Net non-operating receipts (disbursements)	6,877	(371,844)	(364,967)
Net change in cash balances	74,346	(483,009)	(408,663)
Cash balances beginning of year	(69,899)	1,780,594	1,710,695
Cash balances end of year	\$ 4,447	1,297,585	1,302,032
Cash Basis Fund Balances			
Unassigned	\$ 4,447	1,297,585	1,302,032

See notes to financial statements

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2012

NOTE 1 Summary of Significant Accounting Policies

Reporting Entity

The Anita Municipal Utilities is a component unit of the City of Anita, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board (GASB). The Utilities is governed by a three-member Board of Trustees appointed by the City Council, which exercises oversight responsibility under this criteria. The Utilities provides water and electric utilities for the residents of the City of Anita and collects sewer fees on behalf of the City of Anita.

Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utilities. For the most part, the effect of interfund activity has been removed from this statement. Only business type activities are reported, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utilities' nonfiduciary net assets. Net assets may be reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the water system.

The Electric Fund accounts for the operation and maintenance of the electric system.

Anita Municipal Utilities
Notes to Financial Statements
June 30, 2012

NOTE 1 Summary of Significant Accounting Policies - Continued

Measurement Focus and Basis of Accounting

The Anita Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Utilities is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the Utility funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the Utility's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in proprietary funds can be paid using either restricted or unrestricted resources, the Utility's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal and ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012 disbursements did not exceed the amount budgeted.

Cash and Time Deposits

The Utilities pools cash resources of most funds in a combined bank account to facilitate the management of cash. The Utilities makes disbursements and investments from the combined cash balance. Time deposits are stated at cost which approximates market. All interest is credited to the operating fund.

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2012**

NOTE 2 Cash and Pooled Investments

The Utilities' deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3, as amended by Statement No. 40.

Interest rate risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

NOTE 3 Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual salary and the Department is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Department's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$15,882, \$13,423, and \$10,790, respectively, equal to the required contributions for each year.

NOTE 4 Other Postemployment Benefits (OPEB)

The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active members and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with United Health Care. The Utility pays a portion of the premium for retirees, which results in an explicit subsidy and an OPEB liability. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2012**

NOTE 4 Other Postemployment Benefits (OPEB) - Continued

The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Utility and plan members are \$543 for single coverage and \$608 for family coverage. The same monthly premiums apply to retirees.

NOTE 5 Compensated Absences

Anita Municipal Utilities' employees accumulate a limited amount of earned but unused vacation and sick hours for subsequent use, or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utilities until used or paid. The Utilities' approximate liability for earned vacation and sick leave termination payments payable at June 30, 2012 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 10,072
Sick leave	<u>16,733</u>
	<u>\$ 26,805</u>

Sick leave is payable when used or upon retirement or termination. If paid upon retirement or termination, an employee receives one-half of accumulated sick leave hours paid at the current effective hourly rate for that employee.

This liability has been computed based on rates of pay in effect at June 30, 2012.

NOTE 6 Risk Management

The Utilities is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986, for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

**Anita Municipal Utilities
Notes to Financial Statements
June 30, 2012**

NOTE 6 Risk Management - Continued

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital, and, if insufficient, by the subsequent year's member contributions.

The Utilities' property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2012 were \$17,439.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claim shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Utilities also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation. The Utilities assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Other Information

Anita Municipal Utilities
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances – Budget and Actual (Cash Basis)
Other Information
Year Ended June 30, 2012

	<u>Actual</u>	<u>Less Funds Not Required to be Budgeted</u>	<u>Net</u>
Receipts:			
Use of money and property	\$ 31,999	-	31,999
Charges for service	<u>1,156,627</u>	<u>113,734</u>	<u>1,042,893</u>
Total receipts	1,188,626	113,734	1,074,892
Disbursements:			
Business type activities	<u>1,597,289</u>	<u>102,714</u>	<u>1,494,575</u>
Excess (deficiency) of receipts over (under) disbursements	(408,663)	11,020	(419,683)
Balance, beginning of year	<u>1,710,695</u>	<u>1,061</u>	<u>1,709,634</u>
Balance, end of year	\$ <u><u>1,302,032</u></u>	<u><u>12,081</u></u>	<u><u>1,289,951</u></u>

See Accompanying Independent Auditors' Report

Budgeted Amounts		Final to Net Variance
Original	Final	
65,000	65,000	(33,001)
<u>1,094,386</u>	<u>1,094,386</u>	<u>(51,493)</u>
1,159,386	1,159,386	(84,494)
 <u>1,172,000</u>	 <u>1,580,000</u>	 <u>85,425</u>
 (12,614)	 (420,614)	 931
<u>1,709,634</u>	<u>1,709,634</u>	<u>-</u>
<u><u>1,697,020</u></u>	<u><u>1,289,020</u></u>	<u><u>931</u></u>

Anita Municipal Utilities
Notes to Other Information – Budgetary Reporting
June 30, 2012

The Anita Municipal Utilities prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Utilities' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$408,000. The budget amendment is reflected in the final budgeted amounts. The budget amendment increased disbursements for debt service.

During the year ended June 30, 2012, disbursements did not exceed the amended amount budgeted.

**Anita Municipal Utilities
Supplementary Information**

**Anita Municipal Utilities
Schedule of Indebtedness
Year Ended June 30, 2012**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Revenue notes: Electric	May 1, 2002	5.10 – 5.60 %	\$ 820,000

See Accompanying Independent Auditors' Report

Schedule 1

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
<u>400,000</u>	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>7,986</u>

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Prepared in
Accordance with Government Auditing Standards**



Diane McGrain, CPA
Jim Menard, CPA

June 13, 2013

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Prepared in Accordance with Government Auditing Standards

To the Board of Trustees of the
Anita Municipal Utilities

We have audited the accompanying financial statement of the business type activities and each major fund of the Anita Municipal Utilities as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated June 13, 2013. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Anita Municipal Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Anita Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Anita Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Anita Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

Continued...

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Anita Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-12 and I-B-12 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-C-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Anita Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Governmental Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Anita Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit Anita Municipal Utilities responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Anita Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Anita Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schuer & Associates, P.C.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2012**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- I-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, bank reconciliation and the posting of the cash receipts to the cash receipts journal and customer accounts are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-12 Financial Reporting – During the audit, we noted cash was not reconciled and postings to the subsidiary billing records were not reconciled to the general ledger. Adjustments were subsequently made by the Utility to properly report the amounts in the Utility's financial statements after data support corrected computer posting errors.

Recommendation – The Utility should implement procedures to ensure all receipts are properly recorded and posted in the Utility's general ledger.

Response – We will double check the posting of receipts in the future to avoid posting errors.

Conclusion – Response accepted.

- I-C-12 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Board or a Board-designated independent person should review the reconciliations and monitor delinquencies.

Response – Our new utility billing software package provides the means to do a monthly reconciliation and delinquent list. We have since contacted the software technician to resolve this issue. We will better utilize the software reports to reconcile utility billings, collections and delinquencies.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2012**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Certified Budget – The budget certified by the City of Anita includes an amount budgeted for the Anita Municipal Utilities. Disbursements during the year ended June 30, 2012 did not exceed the amended amount budgeted.

II-B-12 Entertainment Expense – We noted no disbursements for parties, banquets or entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General opinion dated April 25, 1979.

II-C-12 Travel Expense - No disbursements of Utilities' money for travel expenses of spouses of Municipal Utilities' officials or employees were noted.

II-D-12 Business Transactions - No business transactions between the Utilities and Utilities' officials or employees were noted.

II-E-12 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-12 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

One instance was found where minutes were not published within 15 days of the meeting, as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The Utility should publish minutes within fifteen days of each meeting.

Response – We send the required information to the local newspaper within 2 days of the meetings. With only a weekly publication, there are times when minutes appear to be late according to the publisher's discretion. We will publish all minutes within fifteen days of each meeting.

Conclusion – Response accepted.

II-G-12 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Utilities' investment policy were noted.

II-H-12 Revenue Notes – There were no revenue notes outstanding at June 30, 2012.

**Anita Municipal Utilities
Schedule of Findings
Year Ended June 30, 2012**

Part II: Other Findings Related to Statutory Reporting (continued):

II-I-12 Statistical Information

Gallons of water pumped during the year ended June 30, 2012: 32,460,000

Gallons of water billed during the year ended June 30, 2012: 22,590,308

Billings based on consumption during the year ended June 30, 2012:

Water Billings - \$238,452 Water Collections - \$242,818 Variance - \$4,366

Comment – For the year ended June 30, 2011 water loss was approximately 30%, and for the year ended June 30, 2012 water loss remains at 30%.

Recommendation – As this loss represents considerable lost revenues for the Utility, we suggest that the Utility monitor the situation to determine the causes for the loss.

Response – Causes of water loss include not tracking water used by the City or fire department. The difference between the billings and collections was due to prior year billings collected in the current year.

Conclusion – Response accepted.